

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 NEA-10 IO-14 H-03 L-03 PRS-01

PA-04 USIA-15 SPC-03 SAM-01 AID-20 EB-11 NSC-10

RSC-01 CIEP-02 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 DRC-01 /180 W

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R 280553Z FEB 74

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USADB

TREASURY FOR FINKEL

E.O. 11652: ADS, DECLAS 12/31/74

TAGS: EAID, EFIN

SUBJECT: TERMS OF SPECIAL FUNDS LOANS

SUMMARY: BANK MANAGEMENT HAS ISSUED WORKING PAPER FOR CONSIDERATION BY BOARD OF DIRECTORS WHICH REVIEWS BANK POLICY ON TERMS OF SPECIAL FUNDS LOANS AND SUGGESTS ADOPTCZN OF STANDARDIZED SET OF TERMS AT MORE CONCESSIONAL LEVEL.

1. ADB WORKING PAPER 4-74 ON ABOVE SUBJECT POUCHED FEB. 22 IS TENTATIVELY SCHEDULED FOR BOARD CONSIDERATION MARCH 19. DOCUMENT NOTES THAT ORIGINALLY BANK USED RANGE OF INTEREST RATES -- 1-1/2 TO 3 PZNCENT PER ANNUM INCLUDING SERVICE FEE OF 3/4 OF 1 PERCENT -- FOR SPECIAL FUNDS LOANS IN ORDER TO REFLECT SOME DISTINCTION AMONG BORROWING COUNTRIES' ECONOMIC CONDIT FNS. AMORTIZATION
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PERIODS RANGED BETWEEN 12 AND 40 YEARS INCLUDING GRACE PERIODS

WHICH VARIED BETWEEN 3 TO 10 YEARS.

2. IN JUNE 1973, AS RESULT OF TIGHT SPECIAL FUNDS RESOURCES POSITION, BANK ADOPTED SPECIAL FUNDS SUPPLEMENTATION SCHEME UNDER WHICH SPECIAL FUNDS AND ORDINARY CAPITAL LOANS WERE BLENDED TO MAINTAIN CONCESSIONALITY IN TERMS OF AVERAGE GRANT ELEMENT WHICH COUNTRY CONCERNED HAD RECEIVED UNDER SPECIAL OPERATIONS DURING 1972. TO ACCOMPLISH THIS, TERMS OF SPECIAL FUNDS LOANS WERE TEMPORARILY FIXED AT 1 PERCENT PER ANNUM INTEREST (INCLUDING SERVICE FEE OF 3/4 OF 1 PERCENT PER ANNUM), 40-YEAR AMORTIZATION PERIOD (INCLUDING 10-YEAR GRACE) AND PRINCIPAL REPAYMENTS AT 2 PERCENT PER ANNUM FOR TEN YEARS AFTER GRACE PERIOD AND AT 4 PERCENT PER ANNUM THEREAFTER. HOWEVER, SUPPLEMENTATION SCHEME BECAME INOPERATIVE AT END 1973.

3. WORKING PAPER CONCEDES THAT VARYING TERMS OF ITS SPECIAL OPERATIONS HAVE PROVIDED SOME FLEXIBILITY, BUT ARGUES THAT PRACTICE HAS LACKED SIMPLICITY AND EFFICIENCY AND HAS INVOLVED SOME ARBITRARINESS IN SELECTING TERMS FOR VARIOUS RECIPIENTS. DOCUMENT ALSO NOTES THAT TERMS OF BANK'S SPECIAL FUNDS LOANS HAVE BEEN MUCH LESS CONCESSIONAL THAN THOSE OF IDA CREDITS (WHICH HAVE GRANT ELEMENT OF NEARLY 87 PERCENT COMPARED WITH SLIGHTLY OVER 60 PERCENT FOR BANK'S SPECIAL OPERATIONS AT ITS HIGHEST ANNUAL AVERAGE TO DATE).

4. BANK MANAGEMENT THEREFORE RECOMMENDING THAT BOARD ADOPT UNIFORM TERMS FOR ALL SPECIAL FUNDS LOANS OF 1 PERCENT PER ANNUM INTEREST, 40-YEAR AMORTIZATION PERIOD INCLUDING 10-YEAR GRACE, AND PRINCIPAL REPAYMENT OF 2 PERCENT PER ANNUM FOR 10 YEARS AFTER GRACE PERIOD AND 4 PERCENT PER ANNUM THEREAFTER. THESE WOULD BE SAME TERMS AS THOSE TEMPORARILY ADOPTED UNDER SUPPLEMENTATION SCHEME AND WOULD WORK OUT TO GRANT ELEMENT OF 81.6 PERCENT.

5. WORKING PAPER ALSO NOTES THAT ON JAN. 17, 1974 BOARD ADOPTED NEW POLICY ON CHARGING ADMINISTRATIVE EXPENSES TO EFFECT THAT HENCEFORTH BANK WILL DRAW ON ALL SPECIAL FUNDS INCOME TO EXTENT NECESSARY TO MEET ADMINISTRATIVE EXPENSES FOR SPECIAL OPERATIONS (ADB DOC. R110-73, ADDENDUM 1).
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IN THESE CIRCUMSTANCES, MANAGEMENT FEELS THERE IS NO LONGER SUFFICIENT JUSTIFICATION FOR DISTINGUISHING PART OF INTEREST CHARGE IN SPECIAL FUNDS LOANS AS "SERVICE FEE" AND RECOMMENDS THAT SINGLE CONSOLIDATED CHARGE BE MADE BY WAY OF INTEREST (I.E., 1 PERCENT PER ANNUM) TO BE REDESIGNATED AS A SERVICE CHARGE.

6. ADB FEELS THERE IS CONSIDERABLE MERIT IN STANDARDIZING

RATE AND TERMS OF SPECIAL FUNDS LOANS. ESTABLISHING UNIFORM
TERMS FOR ALL ELIGIBLE RECIPIENTS WOULD ELIMINATE ELEMENT
OF ARBITRARINESS AND, HENCE, REPEATEDLY EXPRESSED DIS-
SATISFACTION BY SOME BORROWERS WITH SPECIAL FUNDS TERMS
RECEIVED RELATIVE TO TERMS FOR OTHER SPECIAL FUNDS BORROWERS.
AS FOR INCREASING CONCESSIONALITY IN SPECIAL FUNDS LOANS,
OBJECTIVE IS TO CLOSE SIGNIFICANT GAP BETWEEN ADB AND
IDA OPERATIONS SO THAT, AMONG OTHER THINGS, ADB CAN
COMPETE WITH IDA IN REGION. IN THIS REGARD, WOULD
APPRECIATE BACKGROUND INFORMATION ON TERMS OF IDB
FUND FOR SPECIAL OPERATIONS AND WHETHER PRESSURES EXIST
TO MOVE IN MORE CONCESSIONAL DIRECTION, PARTICULARLY IN
VIEW OF ENERGY CRISIS. NEVERTHELESS, THERE SHOULD BE
SOME CLARIFICATION AS TO WHICH SPECIFIC COUNTRIES WOULD
QUALIFY FOR PROPOSED SOFTER ADB TERMS. ON ISSUE OF
FINANCIAL IMPACT OF PROPOSED TERMS, BOARD PAPER SUGGESTS
DETRIMENTAL EFFECT ON FINANCIAL POSITION OF BANK IS NOT
LIKELY. USADB BELIEVES THAT THIS ASPECT IS NOT
ADEQUATELY COVERED IN DOCUMENT AND INTENDS FURTHER
EXPLORATION WITH BANK MANAGEMENT.
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